Bow Valley
INDUSTRIES LTD.

HIGHLIGHTS

	1966	1965
Gross Income	$18,716,102	$12,183,845
Cash flow	$ 2,624,437	$ 1,689,892
Depreciation and depletion	$ 1,016,751	$ 714,440
Net Income	$ 1,300,137	$ 876,337
Shares outstanding	1,074,363	992,600
Cash flow per common share	$2.37	$1.70
Net Income per common share	$1.13	$0.88

The 1966 Annual General Meeting of the Shareholders of Bow Valley Industries Ltd. will be held at the offices of the Company at 10:00 A.M., Friday, August 19, 1966.

BOW VALLEY INDUSTRIES LTD.

Officers

Daryl K. Seaman	PRESIDENT
Byron J. Seaman	VICE-PRESIDENT
H. Donald Binney	VICE-PRESIDENT
Donald R. Seaman	VICE-PRESIDENT
H. Keith Lazelle, C.A.	SECRETARY-TEASURER

Directors

FREDERIC J. AHERN, *Vice-President, The United Corporation* - -	New York, U.S.A.
H. DONALD BINNEY, *Vice-President, Hi-Tower Drilling (Alberta) Ltd.*	Calgary, Alberta
RAYMOND W. HAMMELL, *Vice-President, The Bank of New York* -	New York, U.S.A.
WILLIAM A. HOWARD, Q.C., *Barrister and Solicitor* - - - - -	Calgary, Alberta
WILLIAM S. HULTON, C.A., *Mercantile Bank of Canada* - - - -	Vancouver, B.C.
DARYL K. SEAMAN, *President, Bow Valley Industries Ltd.* - - -	Calgary, Alberta
BYRON J. SEAMAN, *President, Hi-Tower Drilling (Alberta) Ltd.* - -	Calgary, Alberta
DONALD R. SEAMAN, *President, Sedco Exploration Ltd.* - - - -	Calgary, Alberta
D'ALTON L. SINCLAIR, *President, Charterhouse Canada Limited* - -	Toronto, Ontario
HENRY C. VAN RENSSELAER, *Financial Advisor* - - - - - -	Calgary, Alberta

Head Office

630 - 6TH AVENUE SOUTH WEST - - - - - - - - - - - Calgary, Alberta

Transfer Agents

Common Stock

GUARANTY TRUST COMPANY OF CANADA - - - - - - - Calgary and Toronto
CANADA PERMANENT TRUST COMPANY - - - - - - - - Winnipeg

Preferred Stock

THE ROYAL TRUST COMPANY - - - - - - - - - - - Calgary, Winnipeg
Toronto and Montreal

Registrars

Common Stock

GUARANTY TRUST COMPANY OF CANADA - - - - - - - Calgary and Toronto
CANADA PERMANENT TRUST COMPANY - - - - - - - - Winnipeg

Preferred Stock

GUARANTY TRUST COMPANY OF CANADA - - - - - - - Calgary, Winnipeg
Toronto and Montreal

Auditors

PRICE WATERHOUSE & CO. - - - - - - - - - - - - - Calgary, Alberta

Legal Counsel

HOWARD, BESSEMER, MOORE, DIXON, MACKIE & FORSYTH - - - Calgary, Alberta

Bankers

THE ROYAL BANK OF CANADA - - - - - - - - - - - - Calgary, Alberta
THE CANADIAN IMPERIAL BANK OF COMMERCE - - - - - - Calgary, Alberta

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

EARNINGS AND DIVIDENDS

Fiscal 1966 proved to be an excellent year for your company and its subsidiaries. Gross income increased to $18,716,102 compared to $12,183,845 registered last year, while net income amounted to $1,300,137 as against $876,337 a year earlier.

Earnings per common share reached $1.13 versus $0.88 in the preceding year. Cash flow per common share was $2.37 compared to $1.70 in fiscal 1965.

The number of common shares outstanding increased by 81,763 to 1,074,363 at May 31, 1966. This was occasioned by the further exercise of warrants during the year.

Dividends on the common stock amounted to 18¢ per share during fiscal 1966 compared to 16¢ last year. Preferred shareholders received three quarterly payments totalling 82½¢ per share.

FINANCIAL

On March 1, 1966 the company sold $4,000,000 of 7% Sinking Fund Debentures maturing March 1, 1986. This financing refunded shorter term debt, provided a portion of the funds required to finance the acquisition of all the inventory and certain assets of Jones & Laughlin Steel Sales Company Ltd. and approximately 33% of the capital stock of Northward Aviation Ltd., and provided necessary working capital to handle the company's expanding business. The debentures were sold in Canada through a public underwriting.

The sale of $2,000,000 of preferred stock which took place in July 1965, mentioned in last year's Annual Report, together with the proceeds of the debenture financing, placed the company in a favorable position to pursue opportunities for expansion in a period of restricted credit conditions.

OPERATIONS —

Oil and Gas Drilling

Gross revenues from drilling activities increased 22 percent over the previous year. A total of $1,400,000 was spent on rig acquisitions and improvements. As of May 31, 1966 your company's subsidiaries owned 29 oil well drilling rigs and 13 rigs of smaller capacities.

During March, 1966 an oil well drilling rig was destroyed in a well fire. The loss was fully covered by insurance and the non-recurring gain in the amount of $220,673 was credited directly to surplus and did not affect net income.

Oilfield Equipment and Supplies

The growth in Cardwell Supply Company Ltd.'s equipment and supply business during the past year exceeded expectations. The acquisition of the assets of Jones & Laughlin Steel Sales Company Ltd. during the year was an important factor in the higher sales volume achieved. Cardwell Supply Company Ltd. operates eleven supply stores in Western Canada and has become the warehouse agent for the Great Canadian Oil Sands Ltd. project in Northeastern Alberta, which is expected to start production from the Athabasca oil sands next year. While the Great Canadian Oil Sands Ltd. warehouse operation will be a significant part of our supply business it is not expected to materially affect sales and earnings until the 1968 fiscal year.

The recent discoveries in the Rainbow Lake area of Northwestern Alberta have generated a high level of oil field activity resulting in greater demand for supplies manufactured by a subsidiary. Additional plant capacity is being added and will be in operation in fiscal 1967 to accommodate the growing market.

Exploration and Development of Oil and Gas Properties

The company and certain subsidiaries reinvested a portion of their taxable income by purchasing producing oil and gas properties and through participation in oil and gas exploration and development programs. During fiscal year 1966 producing oil and gas properties were purchased for a cash consideration of $800,700.

Real Estate

During fiscal 1966 the company's real estate subsidiary purchased 382 acres of land located in Southwest Calgary. The subsidiary now owns 454 acres of potential residential property, bordered on the North and East by two golf courses with a third golf course to the northwest scheduled for construction next year. Current developments in the area suggest that significant profits from the sale of our holdings should be realized within the next several years.

During the year the remaining real estate in the Highfield industrial area of Calgary was disposed of profitably, and in June 1966 your company moved its main office to the newly constructed Bradie Building in downtown Calgary, which is partially owned by the company's pension fund. The new building provides expanded office space in a desirable area at a favorable rate and because of its centralized location has contributed to operating efficiency.

AFFILIATED COMPANIES

Your company owns approximately 33 percent of the common stock of Northward Aviation Ltd., a new commercial airline serving northern Canada. This affiliate operates 30 aircraft, including helicopters, Beavers, Otters, Cessnas, Beechcraft and other types of which it owns 20. Its facilities include bases at Edmonton, Dawson Creek, Hay River, Inuvik, Calgary, Norman Wells, Yellowknife, Cambridge Bay, Resolute Bay and Fort Smith.

Your company also owns a 20 percent interest in Pan-Oceanic Drilling Ltd. which, through a subsidiary, is engaged in contract oil and gas well drilling in Australia and a 10.5 percent interest in Western Rock Bit Company Limited, the largest manufacturer and distributor of oil well drilling bits in Canada.

GENERAL

The Board of Directors has approved an incentive stock option plan for key employees of the company and its subsidiaries involving a total of 50,000 common shares. Under the plan the options granted are limited to a five year term, exercisable in the last three years of the term, at a price not less than 95 percent of the market price on the date of approval of individual options. The plan became operative on March 4, 1966 when options were granted to thirty-one employees to purchase a total of 32,750 shares at a price of $17.10 per share.

There was a high level of business activity in the Western Canadian petroleum industry during fiscal 1966 brought about in part by the reef discoveries in the Keg River Basin of Northwestern Alberta. Activity again should be at a high level this winter and we look forward to another year of continued progress for your company.

The Board of Directors wishes to express its appreciation to all the employees of the Bow Valley group of companies who by their loyal and conscientious efforts have made the company's growth possible.

Respectfully submitted,

On behalf of the Board of Directors,

President

August 1, 1966.

BOW VALLEY INDUSTRIES LTD. *and subsidiary companies*
(an Alberta company)

ASSETS

	1966	1965
CURRENT ASSETS:		
Cash	$ 12,624	$ 375,161
Short term investments, at cost	—	79,920
Accounts receivable –		
Trade	2,971,623	2,510,563
Due from an associated company	—	118,720
Other	582,621	189,386
Inventory of materials, supplies and merchandise, at lower of cost or net realizable value	2,899,068	903,096
Prepaid expenses	95,219	30,960
	6,561,155	4,207,806
CAPITAL ASSETS, at cost:		
Land, buildings, drilling and other equipment and developed and undeveloped oil and gas properties	14,209,313	11,032,673
Less – Accumulated depreciation and depletion	5,574,100	4,683,097
	8,635,213	6,349,576
COST OF INVESTMENT IN SUBSIDIARIES IN EXCESS OF BOOK VALUE at date of acquisition	720,204	663,733
OTHER ASSETS AND DEFERRED CHARGES:		
Investments in and advances to affiliated companies, at cost	580,845	185,952
Unamortized deferred charges and sundry assets	560,201	111,021
	1,141,046	296,973
	$17,057,618	$11,518,088

CONSOLIDATED BALANCE SHEET

MAY 31, 1966
(with comparative figures for 1965)

LIABILITIES

	1966	1965
CURRENT LIABILITIES:		
Operating bank loans, secured	$ 405,000	$ 770,722
Accounts payable and accrued	2,110,071	2,333,137
Estimated income taxes payable	7,187	7,764
Long term debt due within one year	1,062,717	1,079,947
	3,584,975	4,191,570
LONG TERM DEBT (Note 3)	5,137,302	2,464,996
MINORITY SHAREHOLDERS' INTEREST in subsidiary companies	409,288	413,340
SHAREHOLDERS' EQUITY:		
Share capital (Note 4) –		
5½% cumulative redeemable preferred shares Series A of a par value of $20 each –		
Authorized and issued—100,000 shares; outstanding—99,580 shares	1,991,600	—
Common shares of no par value –		
Authorized – 1,500,000 shares		
Issued and outstanding – 1,074,363 shares (992,600 shares in 1965)	1,738,893	1,503,725
Retained earnings, per statement attached (Note 5)	4,195,560	2,944,457
	7,926,053	4,448,182
CONTINGENT LIABILITIES (Note 6)		
	$17,057,618	$11,518,088

Approved on behalf of the Board:

D. K. SEAMAN, *Director*

B. J. SEAMAN, *Director*

The Auditors' Report is attached to this Balance Sheet.

BOW VALLEY INDUSTRIES LTD. *and subsidiary companies*
(an Alberta company)

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED MAY 31, 1966
(with comparative figures for 1965)

	1966	1965
INCOME:		
Contract drilling, sale of oil field equipment and supplies and oil and gas sales, less royalties	$18,592,128	$12,112,684
Other income	123,974	71,161
	18,716,102	12,183,845
COSTS AND EXPENSES:		
Cost of sales, operating, exploration and administrative	16,019,458	10,233,891
Depreciation and depletion (Note 1)	1,016,751	714,440
Interest on long term debt	245,409	169,535
Taxes on income (Note 2)	7,353	12,833
Other, including directors' fees (1966—$3,400; 1965—$1,950)	40,685	47,990
	17,329,656	11,178,689
	1,386,446	1,005,156
MINORITY SHAREHOLDERS' INTEREST IN INCOME OF SUBSIDIARY COMPANIES	86,309	128,819
NET INCOME FOR THE YEAR	1,300,137	876,337
RETAINED EARNINGS BEGINNING OF YEAR	2,944,457	2,221,724
EXCESS OF FIRE LOSS CLAIM OVER BOOK VALUE OF ASSETS DESTROYED	220,673	—
	4,465,267	3,098,061
DIVIDENDS PAID—		
Preferred shares	82,500	—
Common shares	187,207	153,604
	269,707	153,604
RETAINED EARNINGS END OF YEAR	$ 4,195,560	$ 2,944,457

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1966

1. PRINCIPLES OF CONSOLIDATION AND ACCOUNTING POLICIES:

The accounts of all subsidiary companies have been included in the consolidation, namely, Hi-Tower Drilling (Alberta) Ltd., Hi-Tower Drilling Service Ltd., Cardwell Manufacturing Company, Ltd., Cardwell Supply Company Ltd., Mainland Industrial Supplies Limited, Bow Valley Land Co. Ltd., Antelope Drilling Company Limited, Sedco Exploration Ltd., Alcon Petroleums Ltd. and Canadian Oil Tool Limited.

Depreciation of drilling and related equipment is calculated by the diminishing balance method and depreciation of well equipment by the straight line method. It is estimated that the rates used will amortize such assets over periods not exceeding their estimated service lives. Depletion of producing properties and well costs is being provided for by the unit of production method based on estimated recoverable reserves of oil and gas. Lease rentals and costs of dry-holes and surrendered properties are expensed. Preferred share issue expense is being amortized over a period of ten years; long term debt issue expense is being amortized over the lives of the issues.

2. INCOME TAXES:

Income taxes are calculated on the basis of capital cost allowances claimed which approximate the depreciation provided for in the accounts on an accumulative basis. The total taxes otherwise payable have been reduced mainly by allowable deductions in respect of costs incurred from participation in oil and gas programs and acquisition of producing oil and gas properties.

3. LONG TERM DEBT (secured):

	1966	1965
Bank loans, at current rate of interest (6%), repayable at the rate of $60,087 per month	$1,763,667	$2,253,844
7% Sinking Fund Debentures Series A, due March 1, 1986, redeemable, with annual sinking fund instalments of $158,000 each due 1967 to 1985 inclusive	4,000,000	—
7% First Mortgage Bonds, Series "A", redeemed	—	1,000,000
Non-interest bearing note, payable in monthly instalments of $5,000	75,000	135,000
6½% Mortgage, repayable at the rate of $1,650 per month	31,350	47,850
Due under agreement for sale, repayable in annual instalments of $22,400 on July 1 in each of the years 1966 to 1969 inclusive with interest at 6% per annum	89,600	—
Notes payable on equipment purchases	240,402	104,318
Other notes	—	3,931
	6,200,019	3,544,943
Less—Amount due within one year	1,062,717	1,079,947
	$5,137,302	$2,464,996

4. SHARE CAPITAL AND SHARE PURCHASE WARRANTS:

During the year, 100,000 5½% Cumulative Redeemable Preferred Shares Series A, of a par value of $20 each, were authorized, issued and sold for a total cash consideration of $2,000,000, less expenses of issue of $112,495. A Series A Preferred Share Purchase Fund is being used under which the Company is to expend $40,000 annually commencing in 1966 for the purchase for redemption of preferred shares, provided such shares are available in the open market at a price not exceeding their par value. During the fiscal year, 420 preferred shares were purchased and cancelled. Pursuant to the Alberta Companies Act, an amount of $8,400 of retained earnings was designated as a capital redemption reserve fund which, for statement presentation, is included in the retained earnings balance at May 31, 1966.

During the year 81,763 common shares were issued upon exercise of warrants for a cash consideration of $235,168.

Of the authorized but unissued common shares, 155,637 shares are reserved as at May 31, 1966 for:

a) Outstanding warrants attached to the 7½% Debentures redeemed on November 24, 1964, which entitle the holders thereof to purchase 5,652 common shares of the Company at $3.75 per share to May 31, 1973.

b) Outstanding warrants attached to the 5½% Cumulative Redeemable Preferred Shares Series A which entitle the holders thereof to purchase on or before July 15, 1970, 99,985 common shares of the Company at $9.50 per share.

c) The Company's Incentive Stock Option Plan as to 50,000 common shares. On March 4, 1966, options for 32,750 shares were granted to certain officers and employees of the companies at a price of $17.10 per share which may be exercised in an equal number of shares annually in each of the years commencing March 4, 1968 to 1970 inclusive.

5. RESTRICTION ON DIVIDENDS:

Under the terms of the trust deed for the 7% Sinking Fund Debentures Series A and the conditions of the issue of the 5½% Cumulative Redeemable Preferred Shares Series A, the declaration and payment of dividends on common shares is subject to the following restrictions:

a) Dividends cannot be declared or paid if after giving effect to such declaration or payment the aggregate of the consolidated retained earnings and consolidated capital surplus is less than $3,000,000.

b) Dividends cannot be paid unless after giving effect to such dividends the amount of the consolidated retained earnings, as defined, is at least 125% of the par value of the Series A preferred shares then issued and outstanding.

6. CONTINGENT LIABILITIES:

The Company and/or one or more of its subsidiaries are contingently liable (a) to the extent of $218,000 for loans obtained by a company in which the Company has a minority interest, (b) for discounted conditional sales contracts receivable in the amount of $808,996 and (c) for loans of minority shareholders of a subsidiary company of $110,000.

Title litigation relating to certain oil and gas properties of the Company and certain subsidiaries is pending which, if the decision were unfavourable would not result in any material reduction in capital assets of the Company and its subsidiaries. In the opinion of Counsel, the result of the litigation should not be unfavourable to the Company.

AUDITORS' REPORT

To the Shareholders of
BOW VALLEY INDUSTRIES LTD.

We have examined the consolidated balance sheet of Bow Valley Industries Ltd. and subsidiary companies as at May 31, 1966 and the consolidated statement of income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the combined companies as at May 31, 1966 and the consolidated results of operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta, July 29, 1966.

PRICE WATERHOUSE & CO.
Chartered Accountants.

BOW VALLEY INDUSTRIES LTD. *and subsidiary companies*

A SIX YEAR SUMMARY OF FINANCIAL HIGHLIGHTS

	1966	1965	1964	1963	1962	1961*
Gross income	$18,716,102	$12,183,845	$9,316,636	7,137,454	$5,282,649	$4,955,636
Cash flow	2,624,437	1,689,892	1,272,456	1,128,105	846,483	759,053
Depreciation and depletion	1,016,751	714,440	556,049	501,829	397,326	359,967
Net income	1,300,137	876,337	637,436	501,923	387,786	319,723
Shares outstanding—						
Common	1,074,363	992,600	880,000	860,000	800,000	800,000
Preferred	99,580	—	—	—	—	—
Cash flow per common share	$2.37	$1.70	$1.45	$1.31	$1.06	$0.95
Net income per common share	$1.13	.88	.72	.58	.49	.40
Dividends—						
Common	$ 187,207	$ 153,604	$ 139,200	$ 110,200	$ 100,000	$ 160,000
Preferred	$ 82,500	—	—	—	—	—
Dividends per share—						
Common	18¢	16¢	16¢	13¼¢	12½¢	20¢
Preferred	87½¢	—	—	—	—	—

* Shares outstanding and per share figures have been adjusted to reflect a 4 for 1 stock split in fiscal year 1962.

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